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Rich's, inc.
annual report 1974

fifty-two weeks ended february 1, 1975

cover

Rich's Brookwood Village, Birmingham, Alabama, photographed by Al Clayton

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meeting

The annual meeting of the shareholders of Rich's, Inc., will be held in the Auditorium on the Plaza Floor of the Store for Homes, adjacent to and connected with the corporate offices at 45 Broad Street, S.W., Atlanta, Georgia, on Wednesday, May 28, 1975, at 10 A.M. prevailing local time. All shareholders are invited to attend.

financial highlights

	Fifty-two weeks ended February 1, 1975	Fifty-two weeks ended February 2, 1974
From the Earnings Statement		
Net Sales	$300,036,000	$284,065,000
Percentage Increase	5.6%	9.0%
Earnings Before Taxes	14,261,000	21,571,000
Earnings After Taxes	7,618,000*	11,022,000
Earnings Per Share of Common—Primary	1.85*	2.68
Earnings Per Share of Common—Fully Diluted	1.82*	2.62
Common Dividends Paid	4,770,000	4,522,000
Dividends Per Share	1.16	1.10
Earnings Retained in Company	2,848,000	6,500,000
Return on Common Equity	7.78%	11.82%
From the Balance Sheet		
Working Capital	$ 73,313,000	$ 76,093,000
Ratio of Current Assets to Current Liabilities	3.6	3.7
Expenditures for Property and Equipment	16,001,000	11,584,000
Long-Term Debt	31,031,000	29,405,000
Common Stockholders' Investment	99,370,000	96,522,000
Book Value Per Share of Common	24.17	23.48
Number of Common Shares Outstanding	4,111,635	4,111,635
Total Number of Common Stockholders	4,562	4,375

*On a LIFO basis.

letter to the stockholders

In 108 years of serving Atlanta and the Southeast, Rich's has experienced a wide range of economic cycles. While 1974 was a difficult year, we have faced more difficult times. During all of these economic cycles, whether good times or bad times, Rich's paramount purpose has been and is to offer the best service possible to our customers and our community. For over a century, Rich's has believed in the strength and vitality of Atlanta and the Southeast. That confidence is still strong as we write this annual message to you.

Demonstrating this confidence, we opened five new stores in 1974 and will open two stores in 1975. Rich's Brookwood Village opened in Birmingham, Alabama in August of 1974. This is our tenth department store and, from the day of opening, Rich's Brookwood Village has generated sales volume that has exceeded our expectations. We deeply appreciate this acceptance of Rich's first store in Alabama. In the Fall of 1975, Rich's will open a new department store in the Century Plaza Center in Birmingham. This second store will emphasize apparel and accessories for the entire family and decorative home furnishings.

Two Richway discount department stores opened in Atlanta in August, 1974, on Holcombe Bridge Road in Roswell and Tara Boulevard in Jonesboro. We now have seven Richway discount department stores in Metropolitan Atlanta and two Richway stores in Charlotte, North Carolina. The growth and customer acceptance of Richway during five short years have been especially gratifying.

In 1974, II, a division of Rich's, opened its first two stores in the Peachtree Center and Colony Square complexes in Atlanta. A new store will be opened in the Spring of 1975 at Northlake Shopping Center, in the Northeast area of Atlanta. II is a sportswear boutique catering to the young, trend setting adult market.

With our new stores, sales for 1974 surpassed $300,000,000 for the first time. Sales were $300,036,000 compared with $284,065,000 in 1973, an increase of 5.6%. Net earnings for the year were $7,618,000 or $1.85 per share (on a LIFO basis) compared with $11,022,000 or $2.68 per share last year (on a FIFO basis).

During the fourth quarter of 1974, Rich's adopted the LIFO dollar value method of inventory valuation. This change from the FIFO method of inventory accounting reduced earnings for the year by $589,000 or $.14 per share. The LIFO method more properly reflects the cost of sales during inflationary periods and generates additional cash through a reduction of income taxes.

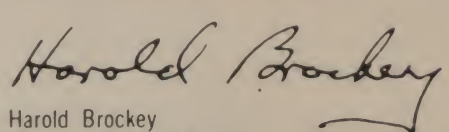
The general decline in economic activity and the impact of inflation adversely affected earnings. Our sales dollar increase was contributed by the new stores opened during the year and total sales for all other operations were essentially equal to last year. Primary factors which caused the reduction in profit margin were the severe inflationary impact on operating expenses, substantially higher bad debt expense and greater than normal markdowns in order to keep inventories in balance with sales.

Rich's management team implemented many cost reductions that were successful in partially offsetting the shortfall in earnings. As an example, Rich's developed a computerized Power Management System that has reduced electric power consumption by an average of 20%. This program which conserves electric energy is copyrighted in the name of the company and has been licensed to the IBM Corporation for marketing on a nationwide basis.

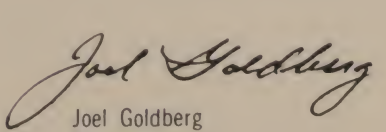
The confluence of unusual economic events made 1974 a distinct challenge to Rich's employees and management team. We wish to recognize their performance and dedication because they are the spirit of Rich's. During the year, we have continued to develop the skills and professionalism of our employees and management. In January 1975, our management team was strengthened by the appointment of Richard F. Mitchell as Vice President of Finance and Treasurer.

We also wish to recognize the loyalty of our customers because they are our future and reason for being. And finally, we appreciate the confidence of our stockholders during this unusual year.

As we write this message, some of the economic indicators are beginning to show hopeful signs. Some economists are now more positive about forecasting an upturn in late 1975. We have a strong and responsive organization that is fully prepared to participate in an economic upturn.



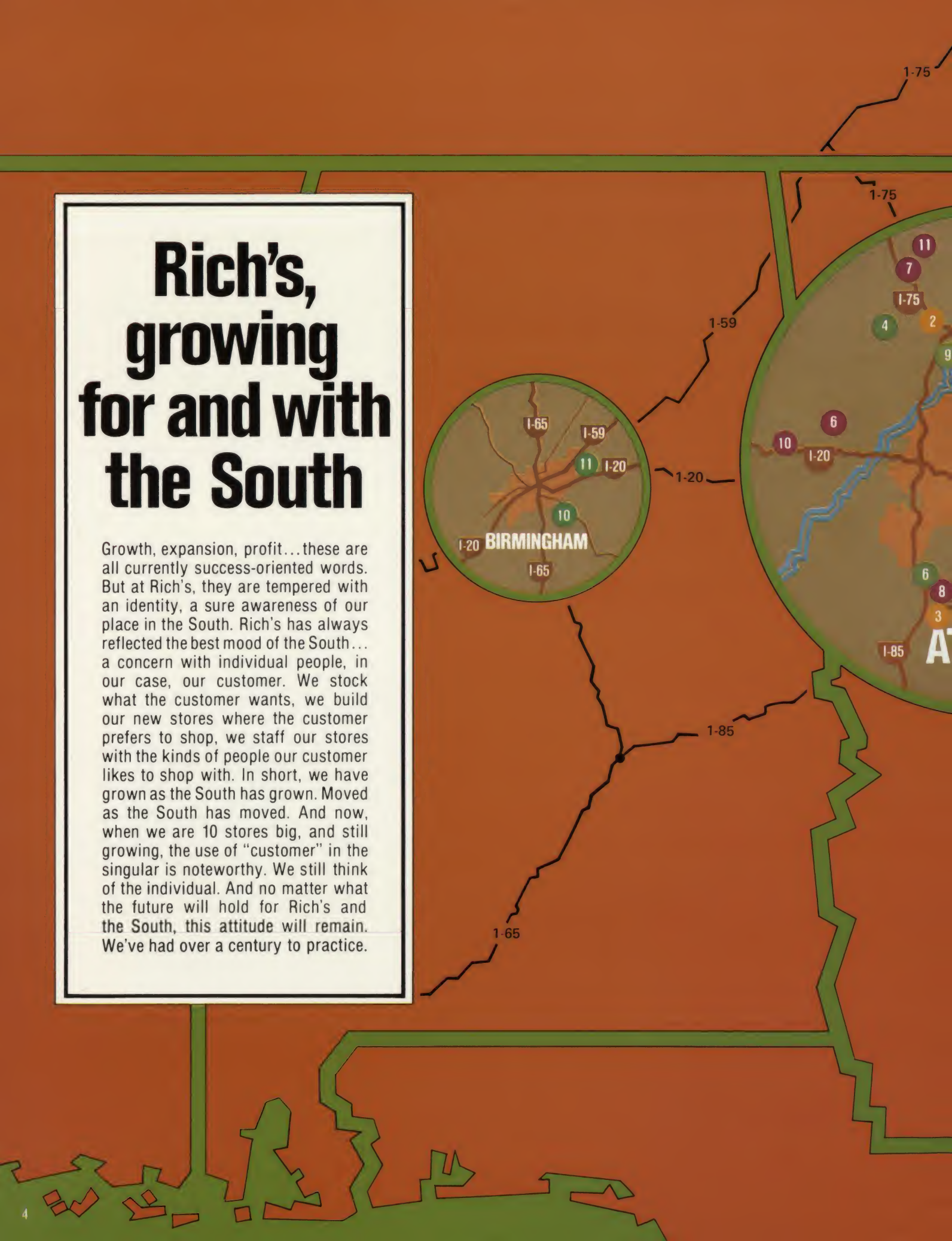
Harold Brockey
Chairman of the Board



Joel Goldberg
President

Rich's, growing for and with the South

Growth, expansion, profit... these are all currently success-oriented words. But at Rich's, they are tempered with an identity, a sure awareness of our place in the South. Rich's has always reflected the best mood of the South... a concern with individual people, in our case, our customer. We stock what the customer wants, we build our new stores where the customer prefers to shop, we staff our stores with the kinds of people our customer likes to shop with. In short, we have grown as the South has grown. Moved as the South has moved. And now, when we are 10 stores big, and still growing, the use of "customer" in the singular is noteworthy. We still think of the individual. And no matter what the future will hold for Rich's and the South, this attitude will remain. We've had over a century to practice.



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I-20
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I-285
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LANTA
I-75
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12
RICH'S II
1. Peachtree Center
2. Colony Square
3. Northlake (Summer '75)
RICHWAY
1. Covington Highway
2. Windy Hill Road
3. Old National Highway
4. Jonesboro Road
5. North Druid Hills Road
6. Roswell
7. Tara Boulevard
8. Freedom Drive, Charlotte, N.C.
9. Independence Boulevard, Charlotte, N.C.
RICH'S
1. Downtown
2. Lenox
3. Belvedere
4. Cobb
5. North DeKalb
6. Greenbriar
7. South DeKalb
8. Perimeter
9. Cumberland
10. Brookwood Village, Birmingham, Ala.
11. Century Plaza, Birmingham, Ala (Fall '75)
12. Southlake (Aug. '76)
13. Outlet Home Store Warehouse
RICH'S BAKE SHOPS
1. Sandy Springs
2. Forest Park
3. Pinetree Plaza
4. West Paces Ferry
5. Toco Hills
6. Mableton
7. New London
8. East Point
9. Riverdale
10. Douglas
11. Market Square

Launched in late Summer of 1974, Rich's Brookwood Village was a major venture outside Georgia. Sensing that an opening advertising thrust playing up the fact that Rich's was an old, established part of Atlanta would not do in Birmingham, we wooed our new customers with a series of ads and a direct mail program that stressed civic pride, and introduced Rich's as a new neighbor that was proud to be a part of the community. The success of the store was virtually instant, proving that a store with the built-in services and policies of a Rich's could and would thrive outside the Atlanta area.

BROOKWOOD VILL

AGE, SUCCESS STORY

RICH'S

RICH'S

RICH's

RICH'S

RICH'S

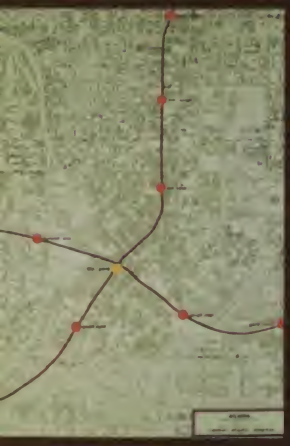
RICH'S

Rich's all around town

From the opening of Rich's Lenox Square in 1959 to the premiere of Rich's Cumberland Mall in 1973, the growth of Rich's network of branch or suburban stores has been a true reflection of philosophy . . . to bring Rich's to all in a most convenient way. As the population patterns of Atlanta have changed, Rich's has been on the move. But, even more important than merely opening new stores, Rich's has endeavored to open stores that fulfill the needs of its potential customers. With the kinds of merchandise assortments considered best suited to each of the stores, an individual-store attitude and the umbrella of Rich's policies of customer service and satisfaction put into direct action. Simply, it's the personality and point-of-view that made Rich's Downtown what it is, multiplied by eight.

Rich's Downtown looks to the future

Notwithstanding Rich's wide success with suburban stores, Rich's Downtown remains our base, our main on which to draw strength. The downtown area is currently undergoing a boom, a resurgence of importance. And Rich's will be a part of this movement to the future. Granted, the next few years will be a time of monumental upheaval, but as the city enters into an age of people movers, megastructures, and an urban attitude as yet unrealized, Rich's will be here to cater to the people the people movers move, the denizens of the megastructures, who, after all, are still people in the most individual sense. We're downtown to stay... and with a flair to match absolutely anything the future can bring. As always.



Richard H. Rich,
Chairman of the Executive Committee

the fling
Richway

Richway

Richway's symbol, the sun and horizon with decorative clouds is obviously a sun rising . . . it has to be to match the winning approval Richway has found with its customers both here in Atlanta, and in Charlotte, North Carolina. In a time when a number of the most recognized discount operations in the country are feeling the economic pinch, it is gratifying to view the track record of Richway. We feel it is a vindication of the attitude we have had about Richway from the first . . . that being merely a discount store is not enough. Granted, customers do appreciate discount prices, but they do not want to give up wide assortments, first quality merchandise, recognized brands and such things as convenient credit, liberal return policies and the like that are usually associated with other than discount operations. As the saying goes, we must be doing something right. And we're going to keep it up!

where do we go from here?

The drawing boards are busy at Rich's! And here are a few of our most current growth plans. For Rich's, a new store for Birmingham in early Fall of 1975...Rich's Century Plaza. Smaller than Brookwood Village, Century Plaza will emphasize ready-to-wear for the whole family, plus decorative home items. For Rich's II, one more store in 1975...at Northlake Shopping Center. For Richway, negotiations are under way for new locations, both in and outside Atlanta. And in Atlanta, another Rich's to be opened in 1976, at Southlake Mall. Bake Shops, too, will be opening, as the need for them arises. Our plans are big, but our focus remains on the individual customer. "People are more important than things" is a maxim we have felt was supremely important. And we will continue to do so. We thought you would like to know.

RICH'S

RICH'S II

Rich's II was a startling innovation for us . . . a boutique, a specialty shop standing on its own. It could not bask in the image of the parent store as it might have done if it had been a department within that store. It has to create an image and live up to it. Rich's II has done just that. First in Peachtree Center, and then in the new Colony Square complex, Rich's II caters to the affluent, taste-making, cosmopolitan, young adult market in a way that they appreciate. Good taste prevails, and for those who have matured from the faddy, the bizarre, Rich's II has found its place. Evidence of our faith... a new Rich's II store in 1975... how's that for starters!

Rich's, inc. financial statements

fiscal year ended february 1, 1975

consolidated balance sheet

	February 1, 1975	February 2, 1974
ASSETS		
CURRENT ASSETS:		
Cash	$ 2,316,000	$ 3,190,000
Investments in commercial paper, at cost, which approximates market	1,385,000	2,750,000
Customer receivables, less allowance for doubtful accounts of $2,869,000 in 1974 and $1,973,000 in 1973	58,402,000	59,524,000
Other notes and accounts receivable	1,584,000	3,753,000
Merchandise inventories, net of LIFO reserve of $1,206,000 in 1974 (Note 6)	35,962,000	33,536,000
Prepaid expenses and other	2,105,000	1,855,000
total current assets	101,754,000	104,608,000
OTHER ASSETS:		
Certificates of deposit, set aside for property and equipment additions	—	2,500,000
Real estate, acquired for future development, at cost	2,893,000	2,818,000
	2,893,000	5,318,000
PROPERTY AND EQUIPMENT, at cost:		
Land	3,123,000	3,123,000
Store buildings and improvements	51,441,000	43,687,000
Fixtures and equipment	33,735,000	28,802,000
	88,299,000	75,612,000
Less—Accumulated depreciation and amortization (Note 1)	28,335,000	25,928,000
	59,964,000	49,684,000
	$164,611,000	$159,610,000
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Accounts payable	$ 8,710,000	$ 8,819,000
Accrued expenses	8,114,000	8,080,000
Federal and state income taxes (Note 1)—		
Current	1,362,000	2,047,000
Deferred	9,056,000	8,405,000
Current maturities of long-term debt	1,199,000	1,164,000
total current liabilities	28,441,000	28,515,000
LONG-TERM DEBT, less current maturities (Note 2)	31,031,000	29,405,000
DEFERRED INCOME TAXES (Note 1)	5,769,000	5,168,000
COMMITMENTS (Note 5)		
STOCKHOLDERS' INVESTMENT (Notes 2 and 3):		
Common stock, no par value, authorized 6,000,000 shares	10,004,000	10,004,000
Paid-in capital	869,000	869,000
Retained earnings	88,497,000	85,649,000
	99,370,000	96,522,000
	$164,611,000	$159,610,000

The accompanying notes are an integral part of this balance sheet.

consolidated statement of earnings

	Fiscal Year Ended February 1, 1975	Fiscal Year Ended February 2, 1974
NET SALES, including leased departments	$300,036,000	$284,065,000
COSTS AND EXPENSES:		
Cost of sales, including buying and occupancy costs	205,878,000	192,013,000
Selling, general and administrative expenses	77,845,000	68,564,000
Interest	2,052,000	1,917,000
	285,775,000	262,494,000
EARNINGS BEFORE INCOME TAXES	14,261,000	21,571,000
PROVISION FOR INCOME TAXES (Note 1)	6,643,000	10,549,000
NET EARNINGS	$ 7,618,000	$ 11,022,000
EARNINGS PER SHARE (Note 1):		
Primary	$1.85	$2.68
Fully diluted	$1.82	$2.62

consolidated statement of changes in stockholders' investment

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings
BALANCE, February 3, 1973	4,107,598	$ 9,915,000	$869,000	$79,149,000
Net earnings				11,022,000
Cash dividends ($1.10 per share)				(4,522,000)
Common stock issued upon exercise of options (Note 3)	4,037	89,000		
BALANCE, February 2, 1974	4,111,635	10,004,000	869,000	85,649,000
Net earnings				7,618,000
Cash dividends ($1.16 per share)				(4,770,000)
BALANCE, February 1, 1975 (Notes 2 and 3)	4,111,635	$10,004,000	$869,000	$88,497,000

The accompanying notes are an integral part of these statements.

consolidated statement of changes in financial position

	Fiscal Year Ended	
	February 1, 1975	February 2, 1974
FINANCIAL RESOURCES WERE PROVIDED BY:		
Operations—		
Net earnings	$ 7,618,000	$11,022,000
Items not requiring outlay of financial resources in the current period—		
Depreciation and amortization (Note 1)	5,721,000	4,959,000
Provision for deferred income taxes (Note 1)	1,252,000	994,000
Financial resources provided from operations	14,591,000	16,975,000
Additional long-term debt	2,860,000	365,000
Decrease in cash and commercial paper	2,239,000	12,073,000
Decrease in prepaid expenses and other assets	2,175,000	401,000
Decrease (increase) in other receivables	2,169,000	(1,325,000)
Decrease in customer receivables	1,122,000	—
Changes in capital stock	—	89,000
	$25,156,000	$28,578,000
FINANCIAL RESOURCES WERE USED FOR:		
Additions to property and equipment, net	$16,001,000	$11,584,000
Cash dividends	4,770,000	4,522,000
Increase in merchandise inventories	2,426,000	5,066,000
Repayment of long-term debt	1,234,000	1,164,000
Decrease in current liabilities	725,000	500,000
Increase in customer receivables	—	5,742,000
	$25,156,000	$28,578,000

The accompanying notes are an integral part of this statement.

1. STATEMENT OF MAJOR ACCOUNTING POLICIES:

principles of consolidation

The accompanying financial statements include the accounts of the Company and its wholly-owned subsidiary (incorporated to operate a department store in Alabama) after elimination of all significant intercompany accounts and transactions.

Certain 1973 amounts have been restated to conform to the 1974 presentation.

inventories

See Note 6.

depreciation, amortization and capitalization policies

Depreciation is provided on the straight-line method over the estimated useful lives of the depreciable assets. The range of annual depreciation percentages is as follows: buildings and improvements—primarily 2-10%; fixtures and equipment—primarily 12.5%; leasehold improvements—the lesser of the estimated life of the property or the term of the lease.

All items of maintenance and repairs are charged directly to earnings. Renewals and betterments of fixed assets are charged to property and equipment accounts. Upon retirement or other disposition of property, the cost is removed from the property accounts and the depreciation or amortization previously provided thereon is removed from the accumulated depreciation and amortization accounts. Gains or losses on such retirements are included in earnings.

income taxes

	1974	1973
Taxes estimated to be payable currently—		
Federal	$4,696,000	$ 8,376,000
State	695,000	1,179,000
Total	5,391,000	9,555,000
Tax effect of timing differences—		
Federal	1,091,000	877,000
State	161,000	117,000
Total	1,252,000	994,000
Total provision for income taxes—		
Federal	5,787,000	9,253,000
State	856,000	1,296,000
Total	$6,643,000	$10,549,000

It is the Company's policy to provide for all income taxes on the basis of book earnings. The tax effect of timing differences results primarily from differences in the timing of recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and the tax effect of each were as follows:

	1974	1973
Sales reported currently for book purposes and under the installment method for tax purposes	$ (79,000)	$868,000
Excess of tax over book depreciation	1,005,000	557,000
Difference between book and tax provision for bad debts	152,000	(44,000)
Timing differences in recognition of certain accruals and other assets	314,000	(146,000)
Other	(140,000)	(241,000)
	$1,252,000	$994,000

The cumulative tax effect of timing differences is reflected in current liabilities for the installment method of reporting sales and other items, and in "Deferred Income Taxes" for the excess of tax over book depreciation.

The total provision for income taxes differs from the amount computed by applying the statutory Federal income tax rate of 48% to earnings before income taxes for the following reasons:

	1974	1973
Provision for income taxes at statutory rate	48.0%	48.0%
Increases (reductions) in taxes resulting from—		
State income taxes, net of Federal income tax benefit	3.0	3.0
Investment tax credits, net of recapture	(4.6)	(2.1)
Other	.2	—
Provision for income taxes	46.6%	48.9%

Investment tax credits ($653,000 in 1974 and $445,000 in 1973) are accounted for as reductions of taxes estimated to be payable currently.

The Company's tax returns through the fiscal year February 3, 1973, have been examined by the Internal Revenue Service. Reserves previously provided were adequate to cover all assessments.

pre-opening expenses

Non-capital expenditures incurred in connection with the opening of new stores are charged to expense during the same fiscal year.

service charges and credit losses

Customer service charges are computed on the monthly receivable balance and are recorded as income when billed. The income and related expenses are included in selling, general and administrative expenses in the accompanying Statement of Earnings. The amount of revenue for customer service charges was not material in relation to total revenues for the periods ended February 1, 1975 and February 2, 1974.

Provision for credit losses on customer accounts is made in amounts required to maintain adequate reserves to cover estimated losses. Customer accounts are charged to the reserve if payments are not received within a specified period of time or if other events indicate that the account is uncollectible.

earnings per share

Primary earnings per share has been computed based on the weighted average number of common shares outstanding during each year. The effect of stock options, as common stock equivalents, had no material dilutive effect during either year. Fully diluted earnings per share has been determined assuming the conversion of convertible notes and exercise of stock options as of the beginning of each fiscal year.

2. LONG-TERM DEBT:

Long-term debt, due in annual installments unless otherwise indicated, at February 1, 1975 and February 2, 1974, consisted of the following:

	1974	1973
7.35%, due from 1978 to 1997	$18,000,000	$18,000,000
3.9%, $274,000 due to 1979, with the balance due in 1980	2,630,000	2,904,000
4.6%, due to 1983	2,720,000	2,960,000
5%, due to 1986	3,010,000	3,220,000
4.875%, due to 1982	2,480,000	2,720,000
4.25%, due to 1975	200,000	400,000
Other	401,000	365,000
	29,441,000	30,569,000
8.25% capitalized lease obligations, due to 1999	2,789,000	—
	32,230,000	30,569,000
Less—Amount due within one year	1,199,000	1,164,000
	$31,031,000	$29,405,000

During fiscal 1974, the Company recorded the lease obligations related to a new store opened during the year. The related lease rights have been included with property in the accompanying balance sheet.

The various debt agreements place certain restrictions on borrowings, acquisitions, disposition of property, payment of cash dividends and acquisition of the Company's stock. Under the most restrictive provisions of the Company's long-term debt agreements, $32,316,000 of retained earnings at February 1, 1975, was available for payment of cash dividends or acquisition by the Company of its common stock.

The 3.9% notes are convertible into common stock of the Company at $38.33 through February 1, 1980. At February 1, 1975, 68,614 shares of common stock have been reserved for this conversion privilege.

The Company had unused lines of credit, established under informal agreements with various banks, totaling $16,500,000 and $13,000,000 at February 1, 1975 and February 2, 1974, respectively. Each of the lines can be withdrawn at the option of the banks. At various times during the year the Company borrowed short-term funds against such lines at average interest rates of 11.5% (total interest expense was $86,000 on short-term debt). The maximum amount of short-term indebtedness outstanding during the year amounted to approximately $3,000,000.

3. STOCK OPTIONS:

The Company has 1965 and 1972 Qualified Stock Option Plans for which 182,368 shares of common stock are reserved for options to officers and key employees. Information relative to the plans for 1974 and 1973 is as follows:

	Number of Shares	
	1974	1973
Outstanding, beginning of year	156,211	98,750
Options granted ($11.50 per share in 1974 and $32.00-$42.00 per share in 1973)	135,962	135,155
Options canceled ($22.00-$32.50 per share in 1974 and $22.00-$42.00 per share in 1973)	(156,211)	(73,657)
Options exercised ($22.00 per share)	—	(4,037)
Outstanding, end of year	135,962	156,211
Exercisable, end of year	—	9,894

4. RETIREMENT PLANS:

The Company has a trusteed pension plan and a profit-sharing savings plan covering substantially all eligible employees.

Pension expense ($1,700,000 in 1974 and $1,455,000 in 1973) is determined by actuarial computations, using the aggregate level cost method. The Company's policy is to fund pension plan cost accrued. At February 1, 1975, the plan assets exceeded vested benefits of the employees under the plan. Certain provisions of the Pension Reform Act will become effective in 1976 and require the Company to amend its pension plan. Management has determined that the required amendments will not have a significant effect on annual pension expense or existing funding policies.

The Company's contribution to the profit-sharing savings plan can be no less than 15% and no greater than 50% of the participants' mandatory deposits so long as the plan is in existence. Under the plan, the participants' mandatory deposits can be no less than 2% and no greater than 5% of the participants' earnings. The contribution, which is charged to expense currently, for 1974 and 1973 was $234,000 and $317,000, respectively.

5. LEASE COMMITMENTS:

The Company has leased certain store and warehouse facilities under net lease agreements expiring substantially through 2003. Rental expense for the periods ended February 1, 1975 and February 2, 1974, was:

	1974	1973
Store and warehouse leases—		
Noncapitalized financing leases (net of sublease income of $954,000 in 1974 and $754,000 in 1973)	$1,810,000	$1,803,000
Other	299,000	296,000
Other rentals	1,411,000	948,000
	$3,520,000	$3,047,000

The present value of the Company's fixed minimum lease commitments under financing leases (as defined by SEC regulations) was $27,963,000 and $27,182,000 at February 1, 1975 and February 2, 1974, respectively. The weighted average interest rates used in the above present value computations were 8.6% and 8.4%, respectively, at February 1, 1975 and February 2, 1974. In both years the range of rates was 5.5% to 10%.

The effect on net earnings assuming financing leases had been capitalized and the related lease rights had been amortized on a straight-line basis and interest cost had been accrued on the basis of the outstanding lease liability would have been as follows:

	1974	1973
Decrease in net earnings had financing leases been capitalized	$391,000	$347,000

As of February 1, 1975, the remaining lease payments are due as follows:

Period	Approximate Amount	Period	Approximate Amount
Year ended		Five years ended	
1976	$3,245,000	1985	$16,228,000
1977	3,259,000	1990	14,358,000
1978	3,259,000	1995	13,316,000
1979	3,259,000	Subsequent to 1995	7,698,000
1980	3,259,000		

The leases of the Company contain various renewal options extending through 2061.

6. INVENTORIES AND CHANGE IN ACCOUNTING METHOD:

Inventories are accumulated primarily using the retail inventory method which involves pricing of individual items at current selling prices and the reduction of the amounts so determined to the lower of cost or market by the application of departmental markup ratios.

Effective February 3, 1974, the Company adopted the last-in, first-out (LIFO) method of determining inventory cost for substantially all of its inventories. It had previously used the first-in, first-out (FIFO) method. The new method is preferable since it more closely matches current costs with current revenues in periods of price level changes; under the LIFO method, current costs are charged to cost of sales for the year through application of Department Store Price Indices published by the Bureau of Labor Statistics. This change in method of accounting had the effect of reducing net earnings for the year 1974 by $589,000, $.14 per share, ($.33 less a $.19 per share increase in earnings due to an upward adjustment of opening inventories to conform those inventories to the LIFO cost basis evaluation). For this type of accounting change, there is no cumulative effect on retained earnings as of the beginning of the year.

auditors' report

To the Board of Directors and Stockholders of Rich's, Inc.:

We have examined the consolidated balance sheet of Rich's, Inc. (a Delaware corporation) and subsidiary as of February 1, 1975 and February 2, 1974, and the related consolidated statements of earnings, changes in stockholders' investment and changes in financial position for the periods then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully explained in Note 6 to the consolidated financial statements, during the fiscal year 1974 the Company changed from the first-in, first-out (FIFO) method to the last-in, first-out (LIFO) method of determining the cost of inventories.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Rich's, Inc. and subsidiary as of February 1, 1975 and February 2, 1974, and the results of their operations and changes in their financial position for the periods then ended, in conformity with generally accepted accounting principles which, except for the change (with which we concur) in the method of accounting for inventories referred to in the preceding paragraph, were applied on a consistent basis during the periods.

Arthur Andersen & Co.

Atlanta, Georgia, April 3, 1975.

business description, summary of operations and management's analysis

DESCRIPTION OF BUSINESS

Rich's, Inc. is a general merchandise retailer engaged in the retailing of products and services in the metropolitan areas of Atlanta, Georgia, Birmingham, Alabama and Charlotte, North Carolina. The Company operates in the Metropolitan Atlanta area, a downtown department store, eight branch department stores located in regional shopping centers, seven discount department stores, an outlet home store, 11 bake shops and two sportswear boutiques. The Company also operates two discount department stores in Charlotte, North Carolina and a branch department store located in a regional shopping center in Birmingham, Alabama. The Company is engaged in no business other than general retail merchandising in the areas noted above.

The retail industries in the various metropolitan areas in which the Company does business is highly competitive and the levels of competition continue to increase. In the retail industry, price, service and assortment are the principal means of competition and the Company believes it occupies a relatively strong position in each of these areas. The Company has no specialized market nor group of customers upon whom it is dependent. The Company sells merchandise for both cash and credit. Approximately half of its sales are on a cash basis and half are made under one of the Company's credit plans. The Company carries substantially all of its customer receivables and is not engaged in any financing or factoring arrangement of its account receivables.

summary of earnings

FOR THE FIVE FISCAL YEARS ENDED FEBRUARY 1, 1975

This summary should be read in conjunction with the financial statements and related notes included in this 1974 stockholders' report.

	Fifty-two weeks		Fifty-three weeks	Fifty-two weeks	
	February 1, 1975	February 2, 1974	February 3, 1973	January 29, 1972	January 30, 1971
NET SALES	$300,036,000	$284,065,000	$260,670,000	$228,551,000	$205,168,000
COST AND EXPENSES					
Cost of sales, including buying & occupancy costs	205,878,000	192,013,000	176,009,000	155,047,000	138,744,000
Selling, general & administrative expenses	77,845,000	68,564,000	59,808,000	53,882,000	47,498,000
Interest	2,052,000	1,917,000	1,996,000	993,000	1,185,000
	285,775,000	262,494,000	237,813,000	209,922,000	187,427,000
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	14,261,000	21,571,000	22,857,000	18,629,000	17,741,000
PROVISION FOR INCOME TAXES:					
Current	5,391,000	9,555,000	9,784,000	8,379,000	8,893,000
Deferred	1,252,000	994,000	1,675,000	1,018,000	306,000
	6,643,000	10,549,000	11,459,000	9,397,000	9,199,000
EARNINGS BEFORE EXTRAORDINARY ITEM	7,618,000	11,022,000	11,398,000	9,232,000	8,542,000
EXTRAORDINARY ITEM:					
Gain on sale of property	—	—	—	198,000	1,419,000
Less—Applicable income taxes	—	—	—	(64,000)	(428,000)
	—	—	—	134,000	991,000
NET EARNINGS	$ 7,618,000	$ 11,022,000	$ 11,398,000	$ 9,366,000	$ 9,533,000
EARNINGS PER SHARE*:					
Primary—					
Earnings before extraordinary item	$1.85	$2.68	$2.78	$2.25	$2.09
Extraordinary item	—	—	—	.03	.24
Net earnings	$1.85	$2.68	$2.78	$2.28	$2.33
Fully diluted—					
Earnings before extraordinaty item	$1.82	$2.62	$2.69	$2.19	$2.03
Extraordinary item	—	—	—	.03	.24
Net earnings	$1.82	$2.62	$2.69	$2.22	$2.27
NUMBER OF SHARES USED IN THE COMPUTATION OF EARNINGS PER SHARE:					
Primary	4,111,635	4,110,339	4,104,705	4,099,722	4,085,892
Fully diluted	4,209,417	4,228,964	4,259,353	4,252,849	4,225,948
CASH DIVIDEND DECLARED PER SHARE	$1.16	$1.10	$1.01	$ .98	$ .97

*See Note 1 to Consolidated Financial Statements, February 1, 1975, included in this report.

management's discussion and analysis of the summary of operations

YEAR ENDED 2/1/75 (52 weeks) COMPARED TO YEAR ENDED 2/2/74 (52 weeks)

Sales during fiscal 1974 increased $15,971,000 (5.6%) over fiscal 1973. In August the Company opened a department store in Brookwood Village Mall in Birmingham, Alabama and opened two discount department stores in the Atlanta area. Net earnings for the year were $7,618,000 or $1.85 per share (on a LIFO basis) compared with $11,022,000 or $2.68 per share last year (on a FIFO basis).

During the fiscal year 1974, the Company elected to change from the first-in, first-out (FIFO) method to the last-in, first-out (LIFO) method of determining the cost of inventories. This change in method of accounting had the effect of reducing net earnings for the year by $589,000, or $.14 per share.

The sales dollar increase did not keep pace with inflation and, to keep inventories in balance with sales, markdowns were higher than normal.

Selling, general and administrative expenses increased $9,281,000 (13.5%). The general economic slow down in 1974 caused a significant increase in bad debt expense, which is classified in this expense category. Other expenses of payroll, supplies and services purchased increased due to inflationary pressures.

Provision for income taxes includes an investment tax credit of $653,000 in 1974 and $445,000 in 1973.

The decrease in net earnings was therefore primarily due to lower than anticipated sales gains, higher markdowns, the above mentioned accounting change (LIFO), and increased expenses.

The retail industry typically experiences seasonally high sales and earnings during the Christmas season. Recessionary conditions during the fourth quarter of fiscal 1974 resulted in a sales volume lower than planned and historical levels. Consequently, net earnings for the quarter and the year were considerably lower than prior periods.

The LIFO change was recorded in the last quarter of the year but had the retroactive effect of reducing quarterly net earnings for the first, second, third and fourth quarters by $151,000 ($.04 per share), $147,000 ($.04 per share), $180,000 ($.04 per share), and $111,000 ($.02 per share), respectively.

YEAR ENDED 2/2/74 (52 weeks) COMPARED TO YEAR ENDED 2/3/73 (53 weeks)

Company sales during fiscal 1973 increased $23,395,000 (9%) over fiscal 1972. The Company opened a new department store in the Atlanta area and two discount department stores in Charlotte, North Carolina.

Cost of sales, including buying and occupancy costs, increased approximately in proportion to sales. Increases in selling and general administrative costs of $8,756,000 (approximately 15%) resulted largely from pre-opening expenses and other expenses attributable to opening and staffing stores outside the Metropolitan Atlanta area. Salary increases attributable to existing employees also contributed to this increase.

Provision for income taxes decreased 1% of pre-tax earnings as a result of increased investment tax credits.

principal trading market

Rich's Common Stock is Traded on the Over-the-Counter Market

PRICE RANGE OF RICH'S COMMON STOCK					Per Share
	High*		Low*		Dividend Paid
	Bid	Ask	Bid	Ask	
Quarters of Fiscal Year 1974					
First Quarter	25¾	26¾	23	24¼	$.29
Second Quarter	22¾	23¾	13½	14½	.29
Third Quarter	15	16	11	12	.29
Fourth Quarter	14	14¾	11½	12½	.29
Quarters of Fiscal Year 1973					
First Quarter	43¼	44¼	38½	39½	.26
Second Quarter	38½	39½	31½	32½	.26
Third Quarter	37	38	32	33	.29
Fourth Quarter	35½	36½	22¼	23¼	.29

*Quotations from the National Association of Security Dealers through NASDAQ.

ten-year history of financial highlights

(000 omitted)	Fifty-two weeks ended February 1, 1975	Fifty-two weeks ended February 2, 1974	Fifty-three weeks ended February 3, 1973	Fifty-two weeks ended January 29, 1972
FROM THE EARNINGS STATEMENT				
Net Sales	$300,036	$284,065	$260,670	$228,551
Percentage Increase	5.6%	9.0%	14.1%	11.4%
Earnings Before Taxes	14,261	21,571	22,857	18,629
Earnings After Taxes[1] [3]	7,618	11,022	11,398	9,366
Earnings Per Share of Common[1] [2] [3]—Primary	1.85	2.68	2.78	2.28
Common Dividends Paid	4,770	4,522	4,146	3,998
Dividends Per Share[2]	1.16	1.10	1.01	.98
Earnings Retained in Company	2,848	6,500	7,252	5,368
Return on Common Equity	7.78%	11.82%	13.22%	11.74%
FROM THE BALANCE SHEET				
Working Capital	$ 73,313	$ 76,093	$ 71,846	$ 65,495
Ratio of Current Assets to Current Liabilities	3.6	3.7	3.2	3.1
Expenditures for Property and Equipment	16,001	11,584	7,290	7,559
Long-Term Debt	31,031	29,405	30,204	31,502
Common Stockholders' Investment	99,370	96,522	89,933	82,555
Book Value Per Share of Common[2]	24.17	23.48	21.89	20.13
Number of Common Shares Outstanding[2]	4,112	4,112	4,108	4,102
Total Number of Common Stockholders	4,562	4,375	4,315	4,268

[1]Includes an extraordinary charge of $420,071 or $.16 per share for year ended January 29, 1966, and extraordinary credits of $134,034 or $.03 per share for the year ended January 29, 1972; $991,341 or $.36 per share for the year ended January 30, 1971; $748,200 or $.27 per share for year ended February 1, 1969.

[2]Data adjusted for comparative purposes to reflect three-for-two stock split effected in the year ended January 29, 1972.

[3]During the year ended February 1, 1975, the Company changed from the first-in, first-out (FIFO) method to the last-in, first-out (LIFO) method of determining the cost of inventories. This change in method of accounting had the effect of reducing net earnings for the year by $589,000 or $.14 per share.

Transfer Agent: Trust Company of Georgia, Atlanta, Georgia
Registrar: The Citizens and Southern National Bank, Atlanta, Georgia
Legal Counsel: King and Spalding, Atlanta, Georgia
Certified Public Accountants: Arthur Andersen & Co., Atlanta, Georgia

Fifty-two weeks ended January 30, 1971	Fifty-two weeks ended January 31, 1970	Fifty-two weeks ended February 1, 1969	Fifty-three weeks ended February 3, 1968	Fifty-two weeks ended January 28, 1967	Fifty-two weeks ended January 29, 1966
$205,168	$186,391	$172,052	$159,204	$148,023	$131,153
10.1%	8.3%	8.1%	7.6%	12.9%	13.0%
17,741	19,114	19,396	16,588	14,369	12,942
9,533	8,731	9,512	8,328	7,243	6,224
2.33	2.14	2.34	2.06	1.80	1.54
3,952	3,940	3,656	3,305	2,958	2,676
.97	.97	.90	.82	.73	.67
5,581	4,791	5,856	5,022	4,285	3,521
12.85%	12.68%	15.00%	14.39%	13.66%	12.65%
$ 53,233	$ 46,203	$ 49,749	$ 46,740	$ 43,036	$ 38,255
2.6	2.4	3.1	3.1	3.0	2.9
4,349	8,462	5,404	2,363	4,774	7,211
14,526	15,550	16,315	16,850	17,335	14,320
77,055	71,346	66,408	60,428	55,276	50,810
18.85	17.51	16.35	14.93	13.71	12.65
4,089	4,076	4,063	4,049	4,034	4,017
4,444	4,516	4,448	4,492	4,438	4,354

board of directors

IVAN ALLEN, JR.
Chairman of the Board
Ivan Allen Company
Office Furnishings and Supplies

JOSEPH F. ASHER
Retired, Former Vice President
of Rich's, Inc.

J. PAUL AUSTIN
Chairman of the Board of
the Coca-Cola Company

HAROLD BROCKEY
Chairman of the Board

RICHARD A. DENNY, JR.
Partner in the law firm of
King and Spalding

R. HOWARD DOBBS, JR.
Chairman of the Board
Life Insurance Company of Georgia

ARNOLD L. DUCOFFE
Director of School of Aerospace
Engineering, Georgia Institute
of Technology

ALVIN M. FERST, JR.

BEN S. GILMER
Retired—Former President American
Telephone and Telegraph Company

JOEL GOLDBERG

BEATRICE HIRSCH HAAS
Partner of Grizzard and Haas
Professional Fund Raising Consultants

JOSEPH K. HEYMAN
Retired—Former Senior Vice President
Trust Company of Georgia

JESSE HILL, JR.
President and Chief Officer
Atlanta Life Insurance Company

A. CARL KOTCHIAN
President
Lockheed Aircraft Corporation

WALTER M. MITCHELL
Retired—Former Chairman Federal
Reserve Bank of Atlanta and
Vice President Draper Corporation

LOUIS MONTAG
Chairman of the Executive Committee
Montag and Caldwell, Inc.
Investment Counsel

MICHAEL P. RICH

RICHARD H. RICH

OSCAR R. STRAUSS, JR.
Associate Sales Manager
Selig Manufacturing Company
Furniture Manufacturer

BENNETT F. TUCK, JR.

JOHN H. WEITNAUER, JR.

corporate officers

HAROLD BROCKEY	Chairman of the Board
JOEL GOLDBERG	President
RICHARD H. RICH	Chairman of the Executive Committee
ALVIN M. FERST, JR.	Executive Vice President
JOHN H. WEITNAUER, JR.	Executive Vice President—Rich's, Inc. and President—Richway
BENNETT F. TUCK, JR.	Senior Vice President—Stores
RICHARD F. MITCHELL	Vice President—Finance and Treasurer
K. EDWARD DYE	Secretary and Assistant Treasurer
FRED A. SKELLIE, JR.	Assistant Secretary and Assistant Treasurer

operating officers

LEONARD LEVEY	Senior Vice President and Merchandise Manager
ALBERT D. MASLIA	Senior Vice President and Merchandise Manager
GLENN T. AUSTIN	Vice President and Merchandise Manager
TERRY S. BARKIN	Vice President and Merchandise Manager
NEIL F. BENNETT	Vice President—Merchandise and Publicity, Richway
L. ROBERT BROWN	Vice President and Merchandise Manager
EDWARD C. DWORETZ	Vice President and Merchandise Manager
M. ROBERT GOLDWASSER	Vice President and General Manager—Downtown Store
LOUIS L. KENNEDY	Vice President—Birmingham Division
LEWIS P. KRAVITZ	Vice President and General Manager—Service Center
JOHN W. MILES	Vice President—Sales Promotion
DUDLEY B. POPE	Vice President—Design and Display
MICHAEL P. RICH	Vice President—Personnel, Consumer Affairs, and Public Relations
MARSHALL N. SAULS	Vice President—Property Management and Development
JULIAN L. WINNERMAN	Vice President and Merchandise Manager

executive committee

RICHARD H. RICH, Chairman
HAROLD BROCKEY
JOEL GOLDBERG
ALVIN M. FERST, JR.
BENNETT F. TUCK, JR.
JOHN H. WEITNAUER, JR.

salary committee

RICHARD H. RICH, Chairman
HAROLD BROCKEY
R. HOWARD DOBBS, JR.
BEN S. GILMER
WALTER M. MITCHELL

finance and audit committee

R. HOWARD DOBBS, JR., Chairman
RICHARD H. RICH
BEN S. GILMER
JOSEPH K. HEYMAN
WALTER M. MITCHELL
LOUIS MONTAG

Additional Information: A copy of Rich's annual report to the Securities and Exchange Commission on form 10-K is available free of charge to stockholders by writing: Attention K. Edward Dye, Secretary, Rich's, Inc., 45 Broad St., S.W., Atlanta, Georgia 30303.

The 1974 annual report is printed in two sections. This second section contains general information concerning Rich's, Inc. and the financial statements. To open to page 1, unfold the entire section, right to left. This section has a perforated cover for easy removal, convenient filing.